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STATE OF THE STATE ADDRESS

The sun rose in Helena this January morning at 9:11--Mountain Daylight Time. Across Montana people were at work long before daylight. The lengthened shadow of a mid-winter night is a strange inconvenience, but it is also symbolic of the way the energy crisis will profoundly change the way we live.

Because of this crisis we stand at the beginning of a period of economic uncertainty--a period of confused expectations and fearful possibilities.

The shortage of energy has already damaged many segments of the national economy and the effects will become more severe and pervasive as the crisis continues. Economic analysts cannot accurately project the impacts of energy shortages on business and industry. Herbert Stein, Chairman of the President's Council of Economic Advisors, admits that the situation is "very difficult and speculative to forecast".

Optimistic projections anticipate increased unemployment, continued inflation and impeded production at levels that could result in a recession.

Pessimists are forecasting adverse economic impacts of extremely dangerous magnitude.

And the uncertainty manifest in this divergence of opinion threatens us all, from individual families to giant corporations.

The energy crisis that was so totally unexpected in the richest nation in the world is now a condition of life. Rather than whistling in the dark, we must accept it as a fact and deal with it realistically.

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This year--1974--is a time for restraint--not careless promises.

It is a time for stability--not unnecessary experimentation.

More than anything, it is a time for conserving not wasting. And we intend to apply this type of practical and carefully considered approach in state government to minimize the effects of the energy crisis in Montana.

The condition of Montana's economy is a paradox. The energy crisis darkens the future, but the state has just completed a year of almost unprecedented economic productivity. Employment and earning levels were significantly higher than in corresponding periods of the previous fiscal year. Prices for agricultural products, particularly barley, wheat and corn, averaged nearly twice what they were in 1972. And last year for the first time in the state's history, cash receipts for the products of our farms and ranches exceeded one billion dollars.

This is a vast and remote state with a small and scattered population. In Montana, we have great distances between cities and towns; between producers and markets; between buyers and sellers; and between our shipping points and the rest of the commercial world. Any condition increasing the cost of transportation will adversely affect the competitive position of Montana products, whether it be coal, copper, lumber, agricultural commodities, or tourist services. Increased transportation costs will be added to the already inflated prices our consumers pay. Energy shortages may also restrict the productive capacities of Montana industries resulting in curtailments, layoffs and a general debilitation of the economy.

There is no question that the effects of the energy crisis will restrict and possibly reverse the economic expansion we achieved last

year, but it is impossible to estimate the severity and dimension of this downturn. Although employment and tax collection data will provide some indications in a few months, we will be well into the year before we have adequate information to develop even a preliminary assessment of economic conditions in the state.

In these uncertain circumstances all of us--the legislature, the executive branch, Democrats and Republicans--must have the collective wisdom to understand the difference between necessity and expedience.

At the beginning of this fiscal year, Montana had a general fund balance in excess of \$18.2 million, resulting primarily from inflation, constructive fiscal and tax policies and the expansion of the economy. Since this surplus was first announced there has been considerable discussion regarding the disposition of these additional funds. Proposals ranging from substantial expansion of state programs to a variety of tax reduction measures have been presented. I believe it is absolutely essential to maintain a strong fiscal position and I would veto portions of my own program proposals if I thought it was necessary to protect an adequate contingency reserve.

The policy of my administration with respect to the present surplus and the balance anticipated at the close of the fiscal year is to reject the temptation to unnecessarily increase expenditures or to enact short-term tax relief. My fiscal proposals are based on the retention of a \$10.8 million balance at the end of the biennium. By maintaining this contingency reserve we will have a defense against the unpredictable economic effects of the energy crisis and we will not have established new and higher spending levels for the next biennium. This reserve representing less than 4 per cent of the total general fund, is a margin

of common sense protection that will allow us to enact meaningful property tax relief without having to return to the people a year from now with a tax increase.

While restraint is necessary to avoid the possibility of the state becoming financially overextended in the next biennium, we cannot accept a do nothing policy that ignores the serious needs of Montana at this time. And we will emphasize certain problem areas where it is essential that action be taken immediately.

We must alleviate the financial pressures on Montana property taxpayers for this and future years and equalize assessments as required by the new constitution.

There has been a great deal of discussion about reformation of the property tax laws of Montana in recent years and the legislature has acted to eliminate some of the inequities. These programs have not been adequate, however, to ease the continually increasing pressure on local property taxes.

In the last fiscal year, property taxation produced nearly \$200 million, 94 per cent of which went for the support of local government, schools and special districts. The largest source of state revenue, the personal income tax, produced \$80 million in the same year. I believe it is time that property taxation be given the same attention that has been directed to assuring that the income tax is fairly and equitably applied.

This session, my administration will propose and actively support a package of four property tax reduction and reform bills. In the next few days, I will submit a Residential Tax Reform Act that will respond directly to the critical situation of low and middle income families and our

retired citizens. The Residential Tax Reform Act will relieve the excessive pressure the property tax exerts on the financial security of these people.

If it is enacted each Montana family with an income of less than \$7,000 will be reimbursed for a portion of the costs property taxes add to maintaining a home. A percentage of the property taxes paid by these families will be returned by the state. The reimbursements will be based on a graduated scale.

A family with no taxable income will receive a reimbursement equalling 100 per cent of property taxes paid. Those with incomes of \$3,500 will receive a 50 per cent return and so on.

A provision is also included in the bill to assist families living in rental housing who are indirectly affected by property taxes.

To implement this program, I am requesting a general fund appropriation of \$7.2 million for fiscal year 1975. If the program is adopted by this Assembly, the first payments will be made in July of this year as reimbursement for property taxes paid in taxable year 1973.

Montana has approximately 60,000 families that will qualify for some reimbursement under this program. Nearly half of these families are senior citizens, many of whom worked hard during their most productive years in order to own their own homes and retain sufficient savings to carry them comfortably through their retirement years. The combination of constant inflation and unrestrained growth in property taxes, however, has had a devastating effect on these families, in many cases reducing what could have been a comfortable retirement to a desperate struggle against poverty. We cannot do a great deal about inflation, but we can do something about the property tax situation. The Residential Tax Reform

Act I am proposing is an important reform measure that will provide immediate and meaningful tax relief to those who need it most in our State and give more people the opportunity to live in decent housing at a reasonable cost. I strongly urge that you enact this legislation.

Three administration proposals which will come before the legislature in the next few days are designed to provide general property tax relief to the citizens of the State. One of these measures proposes that the State assume the county share of the cost of Medicaid. This measure, if enacted, would require a \$3,500,000 General Fund appropriation and would result in an average 3.5 mill reduction in property taxes at the county level.

A second measure proposes that the State property valuation program be supported by the general fund rather than the present 3 mill State property tax levy. This will require an appropriation of \$3 million and will result in a property tax reduction of approximately 3 mills each year, beginning in fiscal year 1975. If this measure is approved, the state property tax will be used exclusively for education. And I urge passage of legislation authorizing a vote on a proposed constitutional amendment to restrict the state from levying property taxes for any purposes other than emergencies and the support of education now and in the future.

The third general relief measure proposes the annual transfer of surplus public school earmarked revenue funds to the State public school permissive levy account. This will reduce the statewide property tax required to fund the permissive levy deficiency. It will have the effect of automatically returning to the taxpayer, in the form of property tax relief, a portion of any unanticipated revenues realized from personal and corporation income taxes, coal, oil and gas royalties, interest and income earnings and surplus basic county mill levies. The immediate

effect would be to reduce the statewide levy for the public school permissive deficiency by over \$8 million in fiscal year 1975. That will mean a property tax levy reduction of approximately 8 mills for each and every property taxpayer in Montana.

The cumulative effect of these three proposals will be to provide relief amounting to between 12 and 15 mills for each property taxpayer in the State in the next two fiscal years. Depending on collections from public school earmarked revenue sources, relief in subsequent years will average between 7 and 10 mills.

The Residential Tax Reform Act and general measures proposed by my administration will lead to property tax relief totalling approximately \$22 million during fiscal year 1975. More importantly, if enacted, they will establish a long range pattern for property tax equity and reform that will ease and in some instances, reverse the regressive trends that have come to characterize property taxation in Montana over the past several years.

The property tax reduction and reform measures we are introducing this session are a continuation of our effort to establish the most reasonable and equitable structure of taxation possible in this state. Last year we reduced the income tax surcharge from 40 per cent to 10 per cent, resulting in a total tax saving of \$34 million. We increased and fully funded the schedules of the school foundation program, providing direct property tax relief of \$20.25 million to local districts. And combined with the proposed reductions this year, this amounts to total tax relief of \$76.25 million for the funding period.

The last session also reformed the primary and secondary school funding procedures to equalize assessments between districts and this resulted in lower property taxes for seven out of every ten homeowners in the state.

Continual modification and improvement is necessary to assure that our tax programs are equitably applied. I believe a computerized residential property mass appraisal system would eliminate the discrepancies in appraisal and assessment that have been documented in a recent study conducted by the Department of Revenue. While the ratio of the assessed value of residential property to the market value should be 40 per cent, average ratios for the 56 counties of the state vary from 20 to nearly 60 per cent. Preliminary analytical results indicate that in nearly every county in the state low-priced residential property is assessed at a higher per cent of market value. And equity in the property tax system is essential to establish trust among the people who pay the levies. Every Montanan should pay his fair share but not one dollar more.

Mass appraisal, similar to the system we are proposing, has proved effective in other states. And a pilot study conducted by the Department of Revenue in Gallatin County indicates that mass appraisal is superior in every respect to present manual methods.

The new constitution requires that the state appraise, assess and equalize the valuation of all taxable property in Montana, and to achieve this objective I recommend that the legislature appropriate approximately \$250,000 for the remainder of this fiscal year and nearly \$700,000 in fiscal year 1975 to fund the research, development and implementation of a residential property mass appraisal system.

During the past four years remarkable progress was made to reform and modernize the state government. The results in increased efficiency and economy are already obvious.

We must now turn our attention toward local government.

The new Constitution provides an exciting opportunity to improve local government. Many of the options available are neither familiar to the citizens of Montana, nor are they wholly consistent with existing statutes which govern local government at the present time. Because of the importance of local government to every citizen of the state, I feel strongly that prior to the time that local electorates have to make their respective selections of local governmental forms in 1976 it is essential that a comprehensive body of information be developed and disseminated relating to possible structures, powers, duties and methods of finance. It is equally essential that before 1976 an attempt be made to revise the existing scattered body of local government law into a unified collection of statutes which are consistent with the options set forth in the new Constitution. To accomplish these objectives, I am proposing the creation of a Local Government Modernization Commission to begin work immediately, and I am requesting an appropriation of \$50,000 for fiscal year 1974 and \$150,000 for fiscal year 1975 to fund the operations of the Commission.

This Legislature has an opportunity and a responsibility to meet the challenge of providing Montana citizens with modern, efficient, and economical local government. The decade of the "70's" should be remembered in Montana history as the "Decade of Local Government".

State government has a responsibility to do everything possible to expand Montana's economy, develop new markets for our products and broaden the tax base.

To achieve this objective we have developed a partnership between government and the private sector of the economy. We have assembled leaders of Montana business, agriculture, industry, finance and labor to assist us in this creative partnership. These men and women serve on

various committees to expand our markets abroad, promote tourism and industrial development, encourage energy conservation and assist with our fuel allocation program.

We are a state heavily dependent on markets elsewhere in this country and abroad. Approximately sixty per cent of our wheat is sold overseas. The removal of federal acreage limitations and increased production capacity could mean a return to high surpluses and low prices without a strong overseas demand for our wheat and barley.

The Foreign Trade Potential Committee will develop the information necessary for Montana producers to take better advantage of expanding opportunities in international markets. Increased foreign export offers a definite possibility of improving the state economy. It is essential that we inventory products suitable for export, locate markets, improve transportation arrangements and apply innovative new approaches in foreign commerce.

I am recommending an appropriation of \$127,600 for 18 months to fund this study, which will also receive financial assistance from the private sector to accomplish its objectives.

The benefits of improved management are apparent in the new efficiency and responsiveness of government and they can be calculated quantitatively as a portion of our present general fund balance. I propose that we maintain our commitment to sound management by fully funding the Government Operations Unit for the next fiscal year.

This agency, which is responsible for evaluating organizational structure and management practices and providing research and planning for executive agencies, was dependent upon the federal government for two-thirds of its support. Due to Congressional action, however, federal support of the program has been terminated, and I recommend a general

fund appropriation of \$72,000 to continue the efforts of the Government Operations Unit.

Good management is the difference between a government that promises and one that performs--the difference between persistent problems and solutions and the difference between supplementals and surpluses.

In the past four years, state government has made a dramatic improvement in operational efficiency. Executive reorganization and the continuing application of sound administrative procedures have provided Montana taxpayers with a better return of their investment in state government.

The Government Operations Unit is an effective and logical extension of the executive reorganization program. A recently completed report on the Boulder River School could save the state approximately \$2 million if the recommendations are implemented.

It is the first of several reports on management and programs that the Government Operations Unit will publish concerning the Department of Institutions. Other reports will concern cost considerations and alternatives for the laundry services which will be required by that Department in the future, an analysis of the Department's Reimbursements Division, and a management and program analysis of the Warm Springs State Hospital. It is presently estimated that a centralized laundry service could lead to savings exceeding \$400,000 a year, while possible savings at Warm Springs could approach \$2,000,000 in medicaid reimbursements.

The savings from improved operational efficiency are state revenues that do not come out of the taxpayer's pocket. This is the most obvious and reasonable form of tax relief and for this reason my administration is committed to continually improve the management of state government.

I am requesting approval of a new consolidated laundry facility for the Boulder River School and Hospital and the Warm Springs Hospital. The existing laundry facilities at these two institutions are excessively costly and inefficient and represent a health hazard to employees and patients. The Hospital and Medical Facilities Division of the Department of Health and Environmental Sciences has declared that neither of the existing facilities meets standards. Failure to meet health standards, if continued, will almost certainly mean loss of medicare certification, which could cost the State between \$2 million and \$3 million a year in medicare/medicaid payments. I am therefore proposing that a consolidated laundry facility serving both institutions be constructed, and that an appropriation of \$1.1 million for fiscal year 1975 be made by the legislature for that purpose.

The office of the Citizen's Advocate, ~~established at my recommendation by the last legislature,~~ has provided government with a very effective method of communicating with people and identifying and solving problems. Last year the Citizen's Advocate responded to approximately 1,200 letters, between 4,000 and 5,000 phone calls, and nearly 500 in-person visits. In most of these instances people were provided with the information or assistance they requested. I recommend an appropriation of \$72,600 to continue the operation of the Citizen Advocate's Office in the interests of accessible and responsive state government.

I support the concept of utilizing a portion of the profits from the state liquor monopoly to improve rehabilitation services for alcoholics. Many Montanans are afflicted with drinking problems and the state has an obligation to help people escape the oppression of this disease.

I also believe we have an obligation to the Montanans who served in the bitter conflict in Southeast Asia. The courage and honor of these

men is in danger of being forgotten in our collective haste to purge all memory of this war. And a Viet Nam honorarium, which has been granted veterans of this conflict by many other states, is entirely appropriate and justified in Montana.

The rapid rate of inflation has outpaced the ability of the majority of our state workers to take home a decent wage. This could not be foreseen when the Legislature last met a year ago, and provided for five per cent wage increases for each of the two years of the biennium.

In an effort to mitigate some of the adverse effects of inflation on state employees--particularly those at the middle and lower income levels--I am requesting the Legislature to authorize the five per cent wage increase, scheduled to go into effect July 1 of this year, be moved ahead to become retroactive to January 1, 1974. The additional cost has been included in the budget. If this request is approved, I will request department directors to examine the needs of all employees and make appropriate adjustments in wages. Clearly, this Nation's spiraling rate of inflation and the rapid increase in the cost of living has had serious consequences for our lower-paid employees.

There are only two supplemental appropriations recommended in my budget message. They are intended to cover emergency situations.

I recommend the appropriation of \$880,000 to cover the cost of the state's efforts in the emergency forest fire situation last summer and \$31,000 to administer the Fuel Allocation Program in the Civil Defense Agency.

Other appropriations included in the budget message are intended to maintain current program levels in response to unanticipated funding situations. These appropriations are based on three criteria. In some instances, such as the Government Operations Unit budget, it will be

necessary to appropriate additional funds to offset the withdrawal of federal support. Funds are requested for programs that were established by the legislature without appropriation. These include the Personnel Division and the Board of Labor Appeals that have been established but not funded. And appropriations are required to cover unanticipated program demands such as funds required to enable our state institutions to meet federal standards for medicare and medicaid.

This budget message is a statement of my belief that at this time we must maintain a position of fiscal restraint and executive responsibility to assure that necessary programs are not jeopardized by economic conditions beyond our control. It is a minimal refinement of the budget enacted by the 1973 legislature, that has only been in effect for six months, and it represents my belief that we must do everything possible to avoid a gradual conversion to annual budgeting.

The program I am advocating is not a fabrication of vague possibilities, assembled by dreamers and supported by nothing more than promises.

It is a practical and affirmative response to the needs of this state at a time when too many questions have not been answered.

It will provide \$22 million in relief to Montana home owners, farmers and businessmen and significantly reform our property tax system.

It will fund essential programs at adequate levels.

It will respond to unanticipated emergency situations.

It will initiate a new era of local government modernization.

It will promote the expansion of new markets for Montana products.

It will encourage a better partnership between public and private interests.

And it will maintain a \$10.8 million contingency reserve to give us the capability to respond to economic dislocations resulting from the energy crisis.

President John F. Kennedy once said, "Let us resolve to be the masters not the victims of our history, controlling our own destiny without giving way to blind suspicion and emotion". After more than ten turbulent years, these words continue to have the unmistakable sound of the truth. In Montana, we have the opportunity to be the masters not the victims of our history. We have the ability and sense of purpose to maintain reasonable levels of taxation, to protect our priceless environment, to improve the economy, to assure the public health and safety, to educate our children, to help the disadvantaged and to provide the type of government our people expect and deserve.

While we must acknowledge and encourage differences of opinion, we must remember that our efforts during this legislative session have a common purpose. We have accepted the responsibility to govern this state. We have accepted it under various banners and labels from different constituencies and for individual reasons. But there is no label that means more than Montana, no constituency greater than the public interest and no reason better than what is right. If we remember and apply these principles we will not subject the people of this state to a futile exercise in partisan politics characterized by inconclusive debate and wasteful delay.

If we have the wisdom in the next sixty days to put the consequences of tomorrow ahead of the inclinations of today, Montanans will have reason to believe in their government.

